Addenda #19 – March 2024
Re: Ch. 8, Money and Debt
Re: Ch. 9, Modern Monetary Theory

President Biden Outlines Vision for Higher, More Complicated Taxes in State of the Union Address and FY2025 Budget
Tax Foundation; Research Op-Ed, March 11, 2024

Last week, President Biden's 2024 State of the Union Address presented a vision of higher taxes for American businesses and high earners combined with carveouts, credits, and more complex rules for taxpayers at all income levels. On Monday, the president released his proposed budget for fiscal year 2025 outlining how the White House would implement the president's tax vision, amounting to a gross tax hike exceeding $5.1 trillion over 10 years.

Rather than aiming for a simpler tax code that broadly encourages investment, saving, and work in the United States, the president has promised higher taxes that would decrease economic output and incomes, reduce U.S. competitiveness, and further complicate the tax code.

While the Biden budget claims to reduce deficits as a share of the economy over the next decade, that claim is based on several unrealistic assumptions….

https://taxfoundation.org/research/all/federal/biden-budget-2025-tax-proposals/

Point #1: The U.S. Tax Code is already complicated enough! I know this through my study to become certified for the AARP Tax-Aide program to do yearly tax returns. This certification is coordinated with the VITA/TCE volunteer program education resources provided each year by the IRS.

According to the Public Law 117-154(06/23/2022), the U.S. Tax Code is 6,871 pages. When you include the federal tax regulations and the official tax guidance, the number of pages raises to approximately 75,000. This will take an average reader about 14 weeks to finish.

There has been a lot of conflicting information on the number of pages in the U.S. Tax Code. But whatever may be the case, as an individual, a professional, or a business person in the U.S., it is essential to be aware of what these codes stipulate because the IRS can impose penalties on you for failure to comply intentionally or not.
How Many Pages Is the Tax Code?; Iris Reading, LLC, June 23, 2022

We as tax preparers, and you as taxpayers, do not need any additional complications to the tax code.

Point #2: The presidents FY(fiscal year)2025 Federal Budget calls for record "Outlays" (spending) of $7.266 trillion, higher than FY2021 spending during the middle of the pandemic! The FY2025 budget has a projected deficit of $1.781 trillion.
The president has claimed *"I was able to cut the federal debt by $1.7 trillion over the first two-and-a – two years…. And guess what? We were able to pay for everything, and we end up with an actual surplus."*

First, the deficit cut that the president referred to, is measured against record spending plans during the pandemic, which have since expired.
In the first thirty-seven months that president Biden has been in office, federal government spending has exceeded revenues in thirty-three of those months, and the National Debt has increased by $6.1 trillion.
That's more debt than president Obama added in his *eight years* in office, and almost as much as president Trump added in his four years in office which included a record $3.1 trillion deficit in FY2020 due pandemic stimulus spending.

The interesting thing is going back now and looking at the presidents three previous fiscal year budgets, and seeing how inaccurate future "projections" of revenue, spending and deficits were.
Note: Each federal budget shows actual or estimated financial data for the previous two fiscal years, the amount requested for the next fiscal year, and projections for the next seven fiscal years. The Budget Totals are calculated for rolling 10-year periods.
Receipts consist of individual and corporate taxes, federal payroll taxes (Social Security, Medicare and unemployment), excise and estate taxes and other miscellaneous earnings and receipts.

The following chart shows the 9-year period from FY2022 to FY2030, from the perspective of Table S-1, Budget Totals, from each of the past four fiscal year federal budgets.

Table S-1. Budget Totals

(In billions of dollars and as a percentage of GDP)

FY2022	2022	2023	2024	2025	2026	2027	2028	2029	2030
Receipts	4,174	4,641	4,828	5,038	5,332	5,632	5,888	6,119	6,370
Outlays	6,011	6,013	6,187	6,508	6,746	6,935	7,312	7,425	7,847
Deficit	1,837	1,372	1,359	1,470	1,414	1,303	1,424	1,307	1,477
FY2023	2022	2023	2024	2025	2026	2027	2028	2029	2030
Receipts	4,437	4,638	4,874	5,076	5,406	5,696	5,969	6,227	6,500
Outlays	5,852	5,792	6,075	6,406	6,734	7,048	7,502	7,670	8,114
Deficit	1,415	1,154	1,201	1,330	1,328	1,352	1,533	1,443	1,614
FY2024	2022	2023	2024	2025	2026	2027	2028	2029	2030
Receipts	4,897	4,802	5,036	5,419	5,773	6,080	6,400	6,669	6,953
Outlays	6,273	6,372	6,883	7,091	7,294	7,589	8,003	8,205	8,639
Deficit	1,376	1,569	1,846	1,671	1,521	1,509	1,604	1,536	1,686
FY2025	2022	2023	2024	2025	2026	2027	2028	2029	2030
Receipts	4,897	4,439	5,082	5,485	5,873	6,186	6,510	6,830	7,164
Outlays	6,273	6,134	6,941	7,266	7,419	7,697	8,083	8,313	8,805
Deficit	1,376	1,694	1,859	1,781	1,547	1,510	1,573	1,483	1,640

Note: Data in green shaded columns is actual.

The first thing that stands out is, how the projected numbers for each year change from budget to budget.

In the FY2022 federal budget, FY2025 spending was "projected" to be $6.508 trillion with a "projected" deficit of $1.477 trillion.
In the actual FY2025 budget request, the spending request is now $7.266 trillion with a deficit of $1.781 trillion.
That's 11.6% more spending and a 20.5% larger deficit than just three years ago!

In the FY2022 federal budget, FY2030 spending was projected to be $7.847 trillion with a projected deficit of $1.477 trillion.
In the FY2025 federal budget, FY2030 spending is projected to be $8.805 trillion with a deficit of $1.640 trillion.
That's 12% more spending and an 11% larger deficit than just three years ago!

What will the actual spending and deficit be when FY2030 budget request is submitted? It will most likely be significantly higher than $1.640 trillion!
Changes in the economy have a lot to do with differences in receipts and deficits. If the economy is growing better than expected, receipts should increase more than expected and the deficits should decrease. If the economy grows less than expected, receipts decrease and the deficit increases.

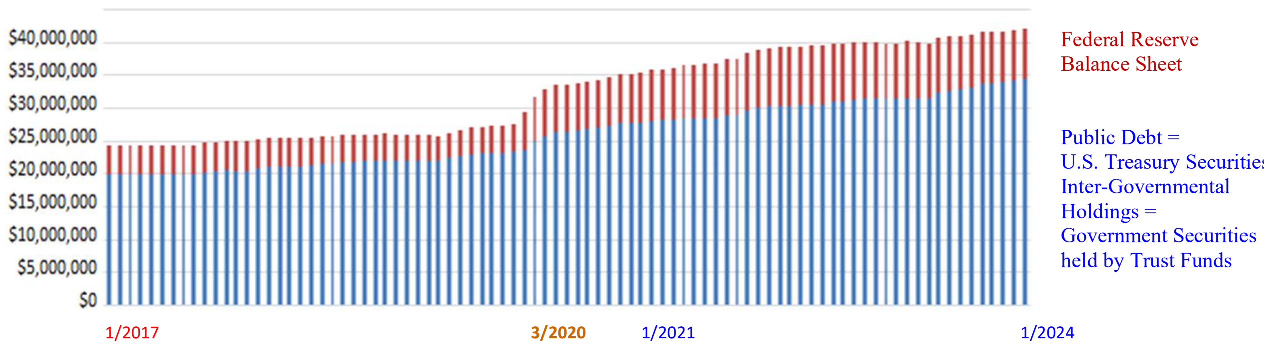
The second thing that stands out, is the significant increases in spending for each fiscal year shown in the FY2024 budget verses shown in the FY2023 budget.

The fiscal year begins October 1st and ends September 30th the following year. In February 2023, the Congressional Budget Office released its annual report on the federal budget and the economy titled, The Budget and Economic Outlook: 2023 to 2033.
One of the projections in the CBO analysis was the expectation of interest rates being higher over the next five years than previously forecast. Higher interest rates make it more expensive to borrow money from investors to finance deficit spending, and result in higher spending overall. (see the discussion on bond issuance and interest rates on page 52)

In the FY2022 budget, the projection was $4.6 trillion being spent on net interest to finance borrowing through 2030.
In March 2022, the yield on the 10-year Treasury bond was 2.339%, the average interest rate on credit card balances was just under 15.0% and the national average of a 30-year fixed mortgage was 4.67%.
In the FY2025 budget, that projection increased to $8.76 trillion, a 90% increase in debt service payments.
In March 2025, the yield on the 10-year Treasury bond was 4.293%, the average interest rate on credit card balances is 27.89% and the national average of a 30-year fixed mortgage is 6.74%.
In the same way as debt service payments reduce the ability of consumers to spend on non-essential items, debt service on an increasing national debt, reduces the federal government's ability to spend on discretionary programs.

U.S. Debt Accumulation – A tale of two Presidencies

Federal government spending deficits (Public Debt) plus Federal Reserve Bank money creation (Federal Reserve Balance Sheet)



M2 Money Supply

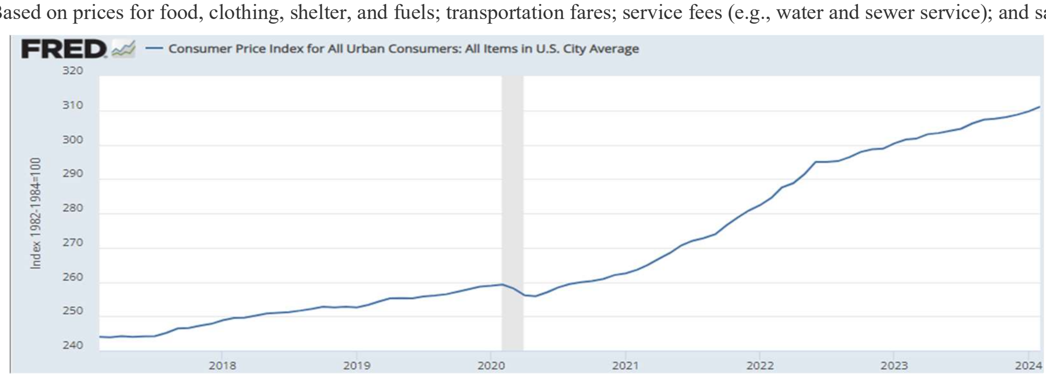
U.S. Federal Reserve's estimate of the total money supply, including all the cash people have on hand, plus all the money deposited in checking accounts, savings accounts, and other short-term saving vehicles such as certificates of deposit (CDs)

PPI (Producer Price Inflation Index)

Measures the average change over time in the prices domestic producers receive for their output. It is a measure of inflation at the wholesale level that is compiled from thousands of indexes measuring producer prices by industry and product category

CPI-U (Consumer Price Inflation Index for All Urban Consumers)

Based on prices for food, clothing, shelter, and fuels; transportation fares; service fees (e.g., water and sewer service); and sales taxes.



Federal Government Stimulus Spending (fiscal policy)

Coronavirus related stimulus plans:

March, 2020 – Coronavirus Preparedness & Response Act	$ 8.3 billion	
March, 2020 – Families First Coronavirus Response Act	$ 3.4 billion	
March, 2020 - CARES Act	$2.090 trillion	
April, 2020 - Paycheck Protection Program	$ 953 billion	
May, 2020 - HEROES Act	$2.819 trillion	
August, 2020 - Lost Wages Assistance Program	$ 44 billion	(from FEMA)
August, 2020 – Temp Assistance to Homeowners & Renters	$ 100 billion	
December, 2020 - Consolidated Appropriations Act	$ 900 billion	
March, 2021 - American Rescue Plan *	$1.900 trillion	

*The ARP was Part 1 of Biden's $6.69 trillion proposed "Build Back Better" Plan
Congressional Republicans forced reduced levels of spending on all three bills.

"Build Back Better" Continuation:

November, 2021 - American Jobs Infrastructure Plan	$1.200 trillion	< ($427 billion
May, 2022 – Infant Formula Supplemental Act	$ 28 million	awarded)
August, 2022 - Inflation Reduction Act	$ 485 billion	< ($100 billion
Total Coronavirus stimulus bills and executive orders	$8.774 trillion	awarded)
Total "Build Back Better" additional plan spending	$1.713 trillion	
Three Year Federal "Spending Spree", beyond Budget	$9.329 trillion	

Federal Reserve Stimulus Spending (monetary policy)

March, 2020 - Treasuries and Mortgage Bond Buying	$3.394 trillion
March, 2020 - Money Market Liquidity Facility	$ 53.2 billion
April, 2020 - Commercial Paper Funding Facility	$ 4.2 billion
April, 2020 - Paycheck Protection Program Liquidity	$ 90.6 billion
May, 2020 - Municipal Bond Liquidity Facility (CARES Act)	$ 6.4 billion
May, 2020 - Corporate Credit Facility (CARES Act)	$ 14.3 billion
June, 2020 - Primary (Broker) Dealer Credit Facility	$ 33.4 billion
June, 2020 - Asset-Backed Securities Loan Facility (CARES Act)	$ 4.1 billion
July, 2020 - Main Street Lending Program (CARES Act)	$ 16.6 billion
Three Year Federal Reserve Stimulus Spree	$4.807 trillion

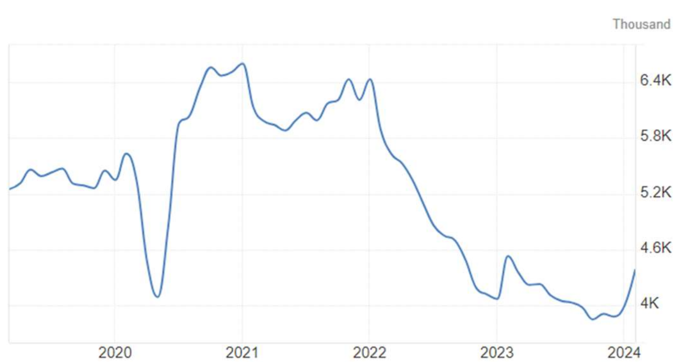
The combination of all these "Stimulus Plans" added a combined $14.136 trillion into the U.S. economy over a very short period of time, which may have helped governments, individuals and businesses recover from the effects of months of pandemic business closures. But the intermediate-term effect was to drastically increase the cost of goods and services, leading to inflation we have not seen in this country since the 1980's.

Inflation briefly turned lower during the beginning of the pandemic, but began a rapid increase as businesses reopened and people began spending all that stimulus money they had received.

When the inflation rate reached 5% in June 2021, Secretary of Treasury Janet Yellen urged continued spending to support the economy, and that inflation would be "elevated but transitory", at a 3% year-over-year basis until about the end of 2021.
When the inflation rate reached 6.2% in October 2021, Yellen was still claiming that inflation would prove to be transitory, but that it might take longer for the pace of price gains to return to normal.
When the inflation rate reached 9.1% in June 2022, Yellen finally conceded inflation was too high. She admitted that she was wrong, and regretted saying that inflation was "transitory." Does anyone else notice the pattern of denial and inept "projection" here?

The Federal Reserve finally began raising interest rates to get inflation under control in March of 2022. By December 2022, the Fed had raised its lending rate seven times for a total increase of 4.25%. The Fed hiked rates four more times in 2023, to bring the lending rate up an additional 1%.
The rate of inflation dropped to 3.1% by November of 2023, but stubbornly refuses to go any lower. The increase in prices had finally leveled out, but the damage had been done.

The 30-year fixed mortgage rate average in the U.S. is 6.87% and rising again. Sales of existing homes, which recovered from pandemic closures due to low rates, have fallen steadily since then.
Even more concerning, mortgage foreclosures, which had been steadily falling since 2010, are rising again.



Higher Interest Payments Are Sapping Public's Confidence
Barron's Magazine; March 18, 2024

Concerns about borrowing costs are the highest since the late 1970's and early 1980's, when the Federal Reserve, under former Chairman Paul Volker, pushed interest rates past 20% to crush then-raging inflation, according to the paper by Marijn A. Bolhuis of the International Monetary Fund and Judd N.L. Cramer, Karl Oskar Schultz, and [former Secretary of the Treasury] *Lawrence Summers, all of Harvard University…*

Due to the sharp rise in mortgage rates – 30-year fixed-rate loans have jumped to about 7% from a historic low of about 3% - the cost of homeownership in the CPI has more than doubled since the pandemic… That's because home prices have jumped 40%, and mortgage rates, more than 140%.

If both personal interest payments (from auto loans, credit cards and other consumer credit) and the higher cost of ownership were accounted for in the CPI, they year-over-year inflation rate last November (when the study was done) would have been 9%, three times the reported 3% increase in the cost of living…

While the administration continues to tout its progress in lowering inflation and the jobless rate, there is little it can do to lower the interest burden that is a major source of Americans' economic pain… The "free lunch" of historically low interest [rates] *is over…*

Addenda #20 – March 2024
Re: Ch. 4 The Fourth Industrial Revolution

- *Government Abuse of Power*

"We are Restricting Freedom … for the Common Good": Irish Green Party Calls For Limiting Free Speech

The Irish Green Party followed many on the left around the world, including our own Democratic Party, this week and came out for censorship and speech controls. Indeed, the party went full Orwellian as its chairwoman Pauline O'Reilly called for "restricting freedom" to protect it.

O'Reilly's comments are part of the introduction of the Criminal Justice (Incitement to Violence or Hatred and Hate Offences) Bill 2022. We previously discussed this massive assault on free speech.

The legislation that would criminalize "incitement to violence or hatred against" people with "protected characteristics," as well as "condoning, denying or grossly trivialising genocide, war crimes, crimes against humanity and crimes against peace."